It's a Buyers' Market for Real Estate Investors, too

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Turn on any financial news program and at some point you'll hear the experts extolling the virtues of diversification. Real estate, even through the market downturn, has long been considered a conservative, long-term strategy to growing wealth.

In fact, that very downturn has created a historic buying opportunity for potential homebuyers and investors alike. The combination of lower home prices across America and historically low mortgage rates, two essential factors that usually don't trend in the same direction, have triggered a buyer's market in many areas of the country. For real estate investors who want to rent their properties, this can make the difference in achieving positive cash flow sooner or right off the bat.

While some seasoned real estate investors make it look easy, to be successful, beginners should follow some basic principles.

- Learn all you can. Before committing your cash, you should have a fundamental understanding of real estate. For example, be aware that, in general, investment properties are not liquid investments. Barring exceptional circumstances, real estate does not sell at a moment's notice. It could take days or months to sell a property, depending on the strength of the market in a particular region.
- Consider cash flow. You'll need to have enough capital on hand to cover any short-term losses due to vacancies between tenants.
- Start small. Look into buying a condominium, single-family home or a duplex. Leave large apartment buildings and commercial properties to the pros.

- Inquire at the local Chamber of Commerce about companies relocating into or out of the area. Company movement is one indicator of demand for rental and/or office space.
- Find a property that will be in demand. Look for a moderately priced home with three or four bedrooms, two bathrooms, and a garage that sits on a quiet street.
- Research the property. The most common way first-time investors lose is by failing to investigate a property thoroughly. Look beyond the front door. Investigate the reputation of the school district, the crime rate, and plans for expanding a nearby highway or developing vacant land. Ask a local real estate professional about the area, its history, and how fast (or slow) properties are moving.
- Inspect the home you're considering for signs of water damage, such as stains on the ceiling and crinkling or gathering wallpaper; open and close every door and window; and check all electrical sockets by plugging in an appliance. Get an independent home inspection, roof inspection and termite inspection. Unexpected repair costs can eat away your cash flow. Because even the best inspection can't always predict problems, try to set aside some of the rental income for unexpected repairs.
- Spend time driving the streets of the neighborhood noting the condition of other properties. Are lawns maintained? Are roofs in good shape? Are homes kept up?
- Be ready to make fixes quickly and respond to the renter's needs. If you're not prepared to be a hands-on landlord, consider hiring a property management firm.
- See your tax advisor for related planning and laws that can affect your investment decisions.

Remember, investing in a property is much different than living in one, and while emotion and attachment can be prime motivators when it comes to homes, it is return on investment that counts when investing in real estate.

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